NOVOGRADAC & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Committee on Ways and Means
Debt, Equity and Capital Tax Reform Working Group
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Marchant, Vice Chairman McDermott, and Members of the Working Group:

On behalf of the members of the New Markets Tax Credit ("NMTC") Working Group, we respectfully submit the following comments as you consider tax reform and how NMTCs may factor into your decisions. The members of the NMTC Working Group are participants in the NMTC industry who work together to help resolve technical NMTC Program issues and provide recommendations to make the NMTC Program even more efficient in delivering benefits to qualified businesses located in low-income communities around the country. Our group includes allocatees, nonprofit and for profit community development entities ("CDEs"), consultants, investors, accountants and lawyers, all who work tirelessly to improve America's low-income communities.

As Congress considers tax reform, we understand all options must be considered. We are writing to encourage you to:

- Make the NMTC program, under Internal Revenue Code §45D, an indefinite part of the Internal Revenue Code which will allow it to continue to achieve the results highlighted below.

- Increase the annual credit authority, indexing it for inflation, and

- Allow the NMTC to offset the alternative minimum tax ("AMT").

We appreciate this opportunity to comment on ways to further enhance the good being done by the NMTC Program, and we also appreciate the level of commitment, dedication and outreach that has been shown and continues to be shown by the Community Development Financial Institutions ("CDFI") Fund, the Internal Revenue Service ("IRS") and the Treasury's Office of Tax Policy in implementing and managing the NMTC Program. The CDFI Fund, IRS and Treasury have proven to be capable managers of the NMTC Program. This is evidenced by the tremendous success the NMTC Program has enjoyed since its inception in 2000. Low-income communities across the country have benefitted from targeted investments of more than $26 billion. We applaud the various offices within Treasury that have worked with all those involved in these transactions to ensure that those dollars get into highly distressed communities as efficiently as possible.

On the last day of its 2000 session, Congress created the New Markets Tax Credit program, part of the Community Renewal Tax Relief Act of 2000, to encourage investment in low-income communities. This exciting and dynamic program generates billions of dollars in new private sector investments in low-income communities and promotes economic improvements through the development of successful businesses in these communities and provides tax incentives to investors to make investments in distressed communities that they wouldn't otherwise make.

Qualified CDEs apply to the CDFI Fund for an award of new markets tax credits. The CDE will then seek taxpayers to make qualifying equity investments ("QEIs") in the CDE. The CDE in turn is required to use substantially all of the qualifying equity investments to make qualified low-income community investments ("QLICIs") in/to qualified active low-income businesses ("QALICBs") located in low-income communities. The taxpayer is eligible to claim a tax credit equal to 5 percent of its equity investment in the CDE for each of the first three years and a 6 percent credit for each of the next four years (39 percent total).

The program is designed to allow the CDE to use its local knowledge and expertise to decide what businesses to invest in or lend to with the funds it raises with NMTCs. Most businesses located in low-income communities can't qualify for the amount of loans or equity needed to make the businesses sustainable in the long-term. Typical businesses that have received loans or investments made possible by the NMTC Program include: shopping centers, manufacturers, retail and grocery stores and micro-entrepreneurs. NMTC investment recipients have also included lumber mills, fish processing plants, charter schools, community centers, youth clubs and neighborhood centers offering free meals, clothing and legal assistance.

In the CDFI Fund's "2012 Year in Review" publication, it reports that $5.5 billion in loans and investments in low-income communities, of which 70% were in severely distressed low-income communities, were made possible by the NMTC program in 2012. During the 2012 fiscal year, $5.1 billion in QEIs were finalized, which will allow investors to claim nearly $2 billion in tax credits over the compliance period. These investments, it reports, led to the creation of 31,405 jobs and 52,448 construction jobs which is a cost to the government of about $15,423 per job due to the lost revenue from the tax credits. This does not account for the jobs created indirectly from spurred-on investments and the additional revenue the government generates as a result. The CDFI Fund also reports that based on activity reported in 2003-2011, $26.4 billion in loans and investments made from funds allocated through the NMTC Program have created 111,277 jobs and 247,555 construction jobs. The NMTC program has also led to the development of 7,488 housing units affordable to low-income families during this same period.

Since the program's inception, the knowledge, understanding and experience among participants in the NMTC Program has been continuously rising, as has the demand and competition for the NMTC among participants in the NMTC Program, including investors, lenders, CDEs and qualified businesses. The interaction of these and other factors has led to ever greater efficiencies and effectiveness of the

NMTC Program in delivering much needed subsidy to qualified businesses.[1] These factors have also helped direct a greater portion of the NMTC Program to the nation's most distressed low-income communities and to qualified businesses generating even greater community impacts.

It is important to note the continuous support the NMTC Program has received from Congress since its inception. In the Taxpayer Relief Act of 2012, the NMTC program was extended for two years. In addition to multiple extensions by Congress, the Obama administration has also proposed to expand the current NMTC Program from $3.5 billion to $5 billion in its most recent budget proposal. In the wake of Hurricane Katrina, the NMTC Program was expanded by $1 billion to encourage investment in low-income communities within the Gulf Opportunity Zone. In the 2009 American Recovery and Reinvestment Act, Congress expanded the NMTC Program again from $3.5 billion to $5 billion to help spur more economic development.

Make NMTC Permanent

We believe that one of the most effective ways to further improve the efficiency of the NMTC Program requires a statutory change – that is, make the credit permanent or, at a minimum, provide a long-term extension. The current trend of granting a short-term extension creates uncertainty in the industry. Uncertainty in any aspect, especially as it relates to the future of funding for the NMTC Program, limits the number of investors and potential CDEs willing to participate, and also limits the level of long-term investment that existing investors and CDEs are willing to make. Unless there is an extension of the NMTC, the elimination of an established relationship between public and private sector investment resources that the NMTC Program was originally designed to promote is inevitable.

Increase Annual NMTC Allocation Authority

Additionally, an increase in annual credit authority and indexing for inflation is essential to expand the low-income community impacts associated with NMTC investments. In the report "New Markets Tax Credit Program: Promoting Investment in Distressed Communities" published October 20, 2008 by the CDFI Fund, the department within the US Treasury responsible for monitoring and administering the NMTC Program, indicated that on average, each $1 of federal tax revenue forgone as a result of the NMTC is estimated to induce more than $14 of investments in low-income communities. Further, over 75% of NMTC-financed projects are located in census tracts that meet one or more higher distress level criteria than are minimally required under the program rules. Since the NMTC Program's inception and through the first nine allocation rounds, the CDFI Fund has made 664 awards allocating a total of $33 billion in tax credit allocation authority to CDEs through a competitive application process. This $33 billion includes $3 billion in Recovery Act Awards and $1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone. Through the fiscal year 2012 reporting period, CDEs disbursed $26.4 billion in QEI proceeds to nearly two thousand qualified active low-income community businesses ("QALICBs") financing both real estate developments and operating businesses in low-income communities. NMTC investments have been located in metro and

[1] See "Reports Indicate that NMTC Program Improves with Age," Novogradac Journal of Tax Credits, July 2011, Volume II, Issue VII.

non-metro areas across all 50 states, the District of Columbia, and Puerto Rico. In the most recent allocation round, the demand for the NMTCs far exceeded the amount of allocation available. There were 282 applications received requesting $21.9 billion of allocation. There is clearly a need for increased credit authority from the current $3.5 billion authorized. An increase in annual credit authority and indexing it for inflation would allow more low-income community investments and substantially increase the community impacts associated with NMTCs.

Allow NMTC to Offset AMT

Willingness by investors to participate in the NMTC Program would also be greatly enhanced if a long-term or permanent extension of the NMTC included a provision that would allow the NMTC to offset AMT.[2] A long-term extension of the NMTC with an AMT offset provision would put the NMTC Program on par with Low-Income Housing Tax Credits, Historic Tax Credits and certain Renewable Energy Tax Credits, and would increase investor demand for the NMTC. With more demand by investors, the pricing of NMTCs would rise and would lead to an even greater amount of subsidy reaching qualified businesses. In addition to higher credit pricing, if the NMTC Program were made permanent or received a long-term extension, CDEs and other NMTC Program participants would dedicate more resources to the NMTC Program and generate even greater efficiencies.

In addition to providing for an extension, an increase in credit authority, and allowing for an offset of AMT to further improve the efficiency of the NMTC Program, we recognize that there are ways to make the NMTC work even better. Addressing technical matters is the central purpose of the NMTC Working Group and its members are dedicated to that goal. Since 2006, the NMTC Working Group has responded to requests from Treasury, the IRS, and the CDFI Fund with recommendations to enhance the NMTC Program's ability to deliver significant community impact to this nation's low-income communities. These comment letters reflect the work of over 50 member organizations participating on numerous conference calls and countless drafting sessions over several years. We trust you will find our comments useful and instructive. All of the NMTC Working Group's comments regarding these issues, as well as many others, can be found on our website at www.nmtcworkinggroup.com. We would be happy to meet with you to discuss any of our comments in further detail.

THE NMTC WORKING GROUP

Very truly yours,

NOVOGRADAC & COMPANY LLP

by
Michael J. Novogradac

NOVOGRADAC & COMPANY LLP

by
Brad Elphick

[2] For further discussion of AMT implications, see §2.16 of Novogradac & Company New Markets Tax Credit Handbook, 2011.